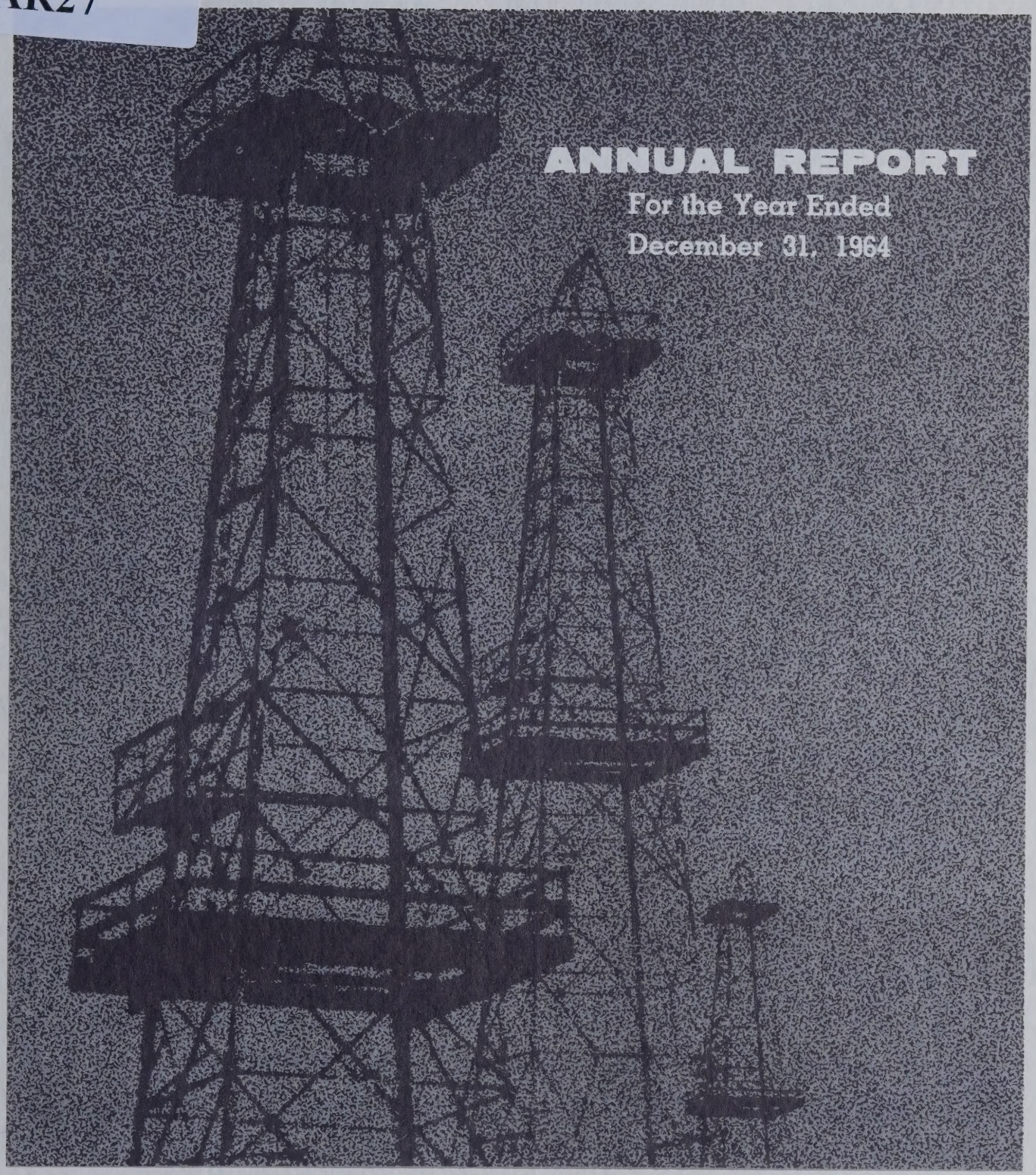
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ANNUAL REPORT

For the Year Ended
December 31, 1964

PHOENIX CANADA OIL COMPANY

LIMITED

Phoenix Canada Oil Company Limited

Incorporated in Ontario, Canada November 25, 1944

CORPORATE DIRECTORY

DIRECTORS	S. Donald Moore Calgary, Alberta Rennie A. Goodfellow Toronto, Ontario Everett E. Ott Toronto, Ontario John A. Murphy Toronto, Ontario
OFFICERS	S. Donald Moore President Everett S. Ott Secretary-Treasurer
OFFICES	Head Office Suite 405, 67 Yonge Street Toronto, Ontario Alberta P.O. Box 636 Calgary, Alberta Ecuador 1140 Avenida Colon Quito, Ecuador
BANKING	Royal Bank of Canada Main Branch, Calgary, Alberta
STOCK EXCHANGE LISTING	Canadian Stock Exchange, Montreal
TRANSFER AGENTS	Guaranty Trust Company of Canada Toronto, Ontario
LEGAL COUNSEL	Williamson and Thomson Calgary, Alberta
AUDITOR	Cecil B. Bell, C.A. Toronto, Ontario
CAPITALIZATION	Authorized 5,000,000 shares (1.00 par value) Issued and Outstanding .. 1,921,856 shares (of which 1,290,805 shares are escrowed)

Phoenix Canada Oil Company Limited

HEAD OFFICE
SUITE 405 • 67 YONGE STREET • TORONTO • ONTARIO

AR27

NOTICE

Re: *United States Treasury Ruling*
Exemption — Interest Equalization Tax

Under a U.S. Treasury Department ruling dated December 30, 1964 and received by the Company January 4, 1965, all of the outstanding shares of Common Stock of PHOENIX CANADA OIL COMPANY LIMITED were exempted from the tax imposed by Section 4911 of the Internal Revenue Code, as added by the Interest Equalization Tax Act (Public Law 88-563). As a result, the purchase or acquisition of Common Stock of the Company by United States citizens is not subject to the 15% tax imposed by this Act.

This ruling is applicable to all of the Common Stock of the Company issued and outstanding on or before November 10, 1964 (no change to Notice date). This ruling exempts from the interest equalization tax all acquisitions by United States citizens from July 19, 1963 and is effective until revoked.

The Company has agreed to and will inform the Commissioner of Internal Revenue prior to the issuance after November 10, 1964 of any further shares of Common Stock. The exemption does not apply to shares of Common Stock issued after November 10, 1964. Shares issued after such date must be easily identifiable and distinguishable from the Common Stock to which the subject exemption ruling relates.

DIRECTORS' REPORT

To The Shareholders:

Your Directors are pleased to report on promising 1964 progress which stressed wildcat drilling preparations on our Ecuador, South America oil concession holdings while maintaining diversified Canadian oil and mining participations. In early 1965 we completed the first steps leading to a new and major oil industry undertaking in the international field. Corporate operations are now facilitated by a well-maintained working capital position, improved last year through investment gains. PHOENIX has become an interesting oil land holding company with considerable interests in over 13,000,000 acres in geographically diverse and active Western Hemisphere exploration regions. Obviously, success in any one of our several potential oil land plays will have a profound effect on PHOENIX equities due to a relatively modest capitalization.

Canadian Arctic Islands Oil Holdings

PHOENIX retains in good standing, without further expense through September 1966, substantial working and royalty interests in 2,344,844 key, selected areas throughout the Canadian Arctic Islands, situate as follows:

Acres Held	Location	Interests Held
1,474,166 acres	North Cornwallis and West Bathurst Islands	30% working and 2½% gross royalty
298,944 acres	West Devon Island	25% working and 2½% gross royalty
147,823 acres	North Ellef Ringnes Island	25% working and 2½% gross royalty
126,564 acres	Southwest Bathurst Island	15% working and 2½% gross royalty
297,347 acres	South and Central Cornwallis Island	10% working

All retained acreage was evaluated by detailed surface and aerial photo-geological surveys and following exploratory drilling on Cornwallis and Bathurst Islands during the winter of 1963-1964. Nearly 90% of present holdings are located in the general Cornwallis-Bathurst area, the most accessible sector and the likely locale of the earliest development.

Subject to certain technical requirements of the Department of Northern Affairs and National Resources, a further acquisition on favourable terms of 100% interest in 493,215 acres on Ellesmere and Axel Heiberg Islands is planned. This acquisition includes $25,000 in par value of Government of Canada Bonds to increase our liquid, cash-equivalent, assets.

The Cornwallis and Bathurst wildcats were drilled by a financing consortium of over thirty Canadian, U.S., U.K. and French oil companies, including PHOENIX in the Cornwallis Project. The Bathurst rig has been stacked for future operations. The Cornwallis rig was returned to Alberta. Both wells encountered significant porous formations of marine origin throughout their sedimentary columns but were abandoned. These operations provided indispensable subsurface geological information and demonstrated that without question Arctic Island development is economically feasible with conventional drilling techniques throughout the year.

The increasing store of Arctic Islands geological and logistical knowledge, and consequent optimism on the eventual discovery of major economic oil reserves, is reflected in the recently accelerated pace of the land play. On December 17th, 1964, Petropar Canada Limited, a major French Government-financed company already one of the largest Canadian Arctic operators, acquired 7,483,795 acres throughout the Arctic Islands and adjoining coastal waters. At a January 28th, 1965 Federal Government sale of oil rights Socony Mobil Oil of Canada Ltd. successfully tendered on 276,050 acres, all on Cornwallis Island, and directly adjoining the PHOENIX North Cornwallis holdings. On February

18th, 1965, British Petroleum's Canadian subsidiary acquired 1,975,818 acres spread throughout the Arctic Islands, including blocks near or adjoining our Bathurst, Devon and Ellef Ringnes holdings. Such acquisitions by substantial major companies assure continued well-financed exploration in this region of vital PHOENIX interest and the availability of future drilling deals.

Management has continued discussions with the Electric Boat Division of General Dynamics Corporation concerning advanced submarine tanker feasibility studies. Submarine tanker technology has advanced to the point where it is deemed probable that discovered Arctic crude oil reserves can be marketed on a year-round basis before 1969, years sooner than previously estimated. More important, net wellhead prices of Arctic crude are not expected to be penalized for transportation costs. With considerably lower prevailing royalties and with fewer development wells required to produce discovered reserves, this oil will be highly competitive in its natural market, Eastern Canada, now importing 450,000 bbls./day of crude oil and products at the highest posted prices. Lack of independent refinery competition in Eastern Canada makes it the most lucrative crude oil import market in the world. The Company was advised that General Dynamics representatives will meet in Ottawa during February, 1965 with the Minister of Northern Affairs and National Resources to discuss possible Canadian Government financial support of advanced commercial submarine tanker feasibility and design studies. Submarine cargo vessels would also have application in the transport of Arctic mineral resources and other bulk products.

Recent comments by Dr. J. C. Sproule, an eminent Calgary consultant, recently President of the American Association of Petroleum Geologists, on the Arctic Islands oil potential are pertinent. Over several years Dr. Sproule has reiterated that "the Canadian Arctic Islands afford independent oil companies the best opportunity in the world to develop into major companies." He continues by forecasting that large oil reserves in the Arctic Islands would be "much easier to develop than in Western Canada, mainly because of the ease with which very large and prospective structures can be identified and delineated, due to the abundance of rock outcrop." Dr. Sproule concludes by stating that "never before has an independent had an opportunity to become a major oil company at such low cost."

Eastern Ecuador, South America Oil Concession

The Company's 10,750,000-acre Pastaza Oil Concession participation, comprising practically all of Ecuador east of the Andes Mountains, is considered the largest independent oil acreage holding in the Western Hemisphere. Successful drilling here will dynamically affect your Company's fortunes. The major Orito (Colombia) Field discovery of Texaco and Gulf, with ten successful development wells now completed along an eight mile front, considerably enhances our exploratory prospects. Shareholders will note the Concession location on the attached map and insert, directly on trend between the Colombian Orito Field and the Peruvian Maquia and Ganso Azul Fields.

A series of farmout and development agreements covering the drilling of the first 6,000-foot exploratory well were completed in 1964 with substantial U.S. and Brazilian financial interests. Efforts were then directed at a crude oil marketing affiliation with Petrobas, the Brazilian state oil agency. The farmout agreements resulted in PHOENIX acquiring a 60% interest in the Pastaza Concession; to be reduced to approximately 29.4% when the farmee group earned a 51% interest after completing the initial exploratory well.

From the PHOENIX viewpoint, the rapidly growing Brazilian crude oil import market (300,000 bbls./day in 1965 — at a cost of over $250 million annually) at the Pastaza Concession's back door

remains the key to its earliest and most profitable development. The Brazilian oil picture becomes grimmer yearly — oil production continues to decline — geological prospects are generally unfavorable — oil consumption continues to rise very rapidly. A particularly favorable preliminary understanding with Petrobas was near completion in April, 1964 when a new, conservative government assumed control.

Negotiations were then necessary with an entirely new slate of Government and Petrobas figures, resulting in inevitable delays as the new officials became familiar with the critical Brazilian oil industry problems and the grave economic consequences of their huge, continuing crude oil deficit. The new Brazilian Government has shown a sound and promising grasp of their nation's fundamental economic problems, particularly the frustrating chronic trade imbalances caused largely by continually expanding crude oil imports. Political recognition of their oil supply problems must inevitably result in an expansion of Petrobas exploration beyond Brazil's borders to more promising oil basins, including the trans-Andean Basin of Ecuador, Colombia and Peru, accessible through Brazil's Amazon River transportation system. To an independent oil company operator without refinery interests, the proximity of the major Brazilian crude oil import market is an incalculable economic advantage.

Through 1964, detailed evaluations were made of the very complex drilling rig transportation logistics to the proposed Tiputini wellsite, in the northeastern sector of the Concession. Airlift rig transport to a nearby airstrip has now been found feasible in all respects. In November, our farmee associates completed a $40,000 payment to the Ecuador Government to maintain the Concession in good standing. Essential preparations now underway in Quito and at the Tiputini wellsite are expected to result in early drilling announcements.

Resulting from recent proposals initiated by your Management, senior officials of a major international oil company are presently in Quito negotiating a working option and sub-farmout agreement with our Ecuador General Manager providing, among other things, for a commitment on about $400,000 in preliminary exploratory work, consisting of aerial photographic coverage, an aerial magnetometer survey and at least three crew months of seismic work. Upon completion of the several programmes, an interest in approximately 1,000,000 acres in the northwestern Concession sector may be earned by the major company farmee by drilling a well to test the horizons productive in the nearby Orito Field. All exploration expenditures will be specified as applying on overall Concession work commitments. PHOENIX and associates would retain a working or royalty interest, at our option after the test well is completed, in the sub-farmout block.

Pastaza Concession terms are favorable to sustained exploration and development. Maximum Government royalty is 6%; some acreage, depending on pipeline distance to the Pacific Coast, may be subject to only 5% royalty. The term is 55 years from August 1961; of the approximate 10,750,000 acres held, 50% must be relinquished in 8 years (1969), a net 25% in 18 years (1979), and further net 12½% in 28 years (1989). After 38 years (1999), a net 2,470,000 acres can be held through the year 2016. Ecuador has a long record of sound fiscal policy, exceptionally stable prices and a surplus balance of trade. Foreign investment has always been accorded a co-operative welcome.

In The Offing

In early February, 1965, following several months of geological research and economic evaluations, PHOENIX completed a formal application and filing on a new foreign oil and gas concession area of 2,560,000 acres. The Company will hold a 100% interest in any rights granted. No geographical details of any kind can now be divulged due to an intense competitive situation which has started to develop within weeks of the acceptance of our application for filing. Such competition results in complications for an independent as PHOENIX but can

also be considered as complimenting our foresight in entering this new play in its earliest stages. It is not presently possible to determine whether all or any part of such oil and gas concession rights will be granted the Company. Any participation we ultimately obtain in this interesting oil play, considered highly favorable politically, economically and geologically, will importantly expand our scope of international operations.

Alberta and Manitoba Interests

The Company retains a 2½% gross royalty in 12,669 lease acres in the Peace-River-Clear Hills area of Northwestern Alberta, located near several important gas fields, notably the Worsley and Pouce Coupe Fields, and with 18 miles of the Boundary Lake Oil Field in British Columbia. Recent major oil discoveries at Zama Lake improve the petroleum prospects of this area. The leases are operated by The French Petroleum Company of Canada Ltd. The Company is presently examining participations in two separate Alberta wildcat oil drilling ventures of considerable geological merit. A decision on these projects is expected shortly.

In late 1964, a Company field prospector staked two mineral claims in north-central Manitoba covering reported nickel-copper-lithia showings. While assays returned only minor values in copper and nickel, interesting values of 1.6% in lithia were also obtained. This property will be further examined when field conditions permit.

The Company retains in good standing its original Snow Lake, Manitoba gold prospect consisting of 18 Patented Mining Leases adjoining the former producing Nor-Acme Gold Mine. This property will attract new interest if current speculation on gold price increases materializes.

Exemption From 15% U.S. Interest Equalization Tax

Of critical interest to our present and prospective U.S. Shareholders is the exemption granted PHOENIX by the U.S. Treasury Department from the 15% Tax imposed by Section 4911 of the Internal Revenue Code, as added by the Interest Equalization Tax Act (Public Law 88-563). This Exemption applies to all of the outstanding shares of the Company with the result that the purchase or acquisition of Company shares by U.S. citizens is not subject to the 15% Tax imposed by the Act.

Financial Condition

Management is pleased to present our Financial Statement which features a working capital position that has improved considerably over the 1963 year-end. Since the 1964 year-end, continued improvement in the market prices of certain investments resulted in an additional appreciable increase in net working capital. Cash resources will permit of an active year in line with Company policy of concentrating on the initiation of larger exploration plays requiring lesser capital expenditures at their outset. In addition to specific interests covered here, Management is now evaluating several additional proposals of merit. By continued stringent control of operating and overhead expenses, Company resources will readily support several such undertakings.

Management continues to stress maximum Company expansion with minimum common share equity dilution. No common shares were issued during the past year; the sole capitalization consists of 1,921,856 common shares (of which 1,290,805 shares are escrowed and subject to release only upon the approval of the Canadian Stock Exchange and the Quebec and Ontario Securities Commissions). There is no senior equity or funded debt.

Submitted on Behalf of the Board:
by S. DONALD MOORE, President.

Toronto, Ontario.
26 February, 1965.



EASTERN ECUADOR MAP OF PASTAZA CONCESSION

Map locating PHOENIX Pastaza Concession interests (dark shaded area — 10,750,000 acres, more or less) in Eastern (Oriente) Ecuador in relation to Texaco and Gulf Orito Field Oil discoveries. Structural contours shown (given in metres) are based on a reflection seismic horizon considered to correspond with the uppermost part of the Napo (Cretaceous) Formation. Smaller insert map locates Eastern Ecuador in relation to the Colombian Orito Field and the Peruvian Maquia and Ganso Azul Fields.

Reprinted from December, 1964 WORLD OIL

Phoenix Canada Oil Company Limited

BALANCE SHEET @ 31st DECEMBER, 1964

ASSETS

CURRENT:		
Cash in Banks	$ 39,720.39	
Marketable Securities, at cost (Market Value — $45,857.00) (Note No. 1)	41,848.42	
Notes Receivable (Note No. 2)	5,533.95	$ 87,102.76
DEPOSITS:		
Government of Canada Bonds, at cost (Market Value — $19,812.50) (Note No. 3)		19,813.75
FIXED:		
Interests in Petroleum and Natural Gas Rights, Permits and/or Leases	$ 48,202.00	
Mining Properties	115,001.00	163,203.00
DEFERRED:		
Organization Expenses	$ 3,769.98	
Exploration, Development and Administration Expenses per Schedule "A"	198,005.00	201,774.98
		$471,894.49

LIABILITIES

CURRENT:		
Accounts Payable and Accrued Expenses	$ 2,074.12	
Owing to Broker re purchase of Marketable Securities (Note No. 1)	25,843.68	
Estimated Liability for Rig move-out costs re Cornwallis Island Drilling Project	14,500.00	$ 42,417.80
CAPITAL:		
Authorized: $5,000,000 divided into 5,000,000 shares of $1 each		
Issued — Fully Paid:		
1,921,856 shares of $1.00 each	$1,921,856.00	
Less: Discount thereon	1,661,495.80	
	$ 260,360.20	
40,000 shares to be issued — $40,000.00		
Less: Discount thereon (Note No. 4) — 20,000.00		
	20,000.00	
	$ 280,360.20	
Add: Surplus per Schedule "B"	149,116.49	429,476.69
		$471,894.49

See Note No. 5 re Management Incentive Stock Option Plan

APPROVED ON BEHALF OF THE BOARD:

S. DONALD MOORE, Director.

JOHN A. MURPHY, Director.

The notes attached hereto form an integral part of this Balance Sheet.

Phoenix Canada Oil Company Limited

NOTES TO BALANCE SHEET @ 31st DECEMBER, 1964

Note No. 1 These securities are subject to an amount of $25,843.68 owing to a Broker and which is shown under Current Liabilities. The securities are held by the Broker.

Note No. 2 These notes have been received to cover advances made in connection with the Ecuador Oil Concession. They are demand notes and bear interest at 3% per annum.

Note No. 3 These consist of:

(a) $25,000 Government of Canada 3% Perpetuals Bonds and are deposited with the Department of Northern Affairs and National Resources as performance bonds in connection with Arctic Island Permits.

(b) $1,000 Government of Canada Bond — 4½% 1983 deposited with the governmental authorities in the Province of Quebec having jurisdiction over the sale of shares to the public.

Note No. 4 Included in the issued capital is 40,000 shares which are to be issued at a discount of 50% as consideration for 15 Arctic Island Permits aggregating 493,215 acres and $25,000 Government of Canada Bonds 3% Perpetuals deposited with the Department of Northern Affairs and National Resources as performance bonds. The bonds have been recorded in the books at a cost of $18,875.00 (which is also market value) and the Permits recorded at a cost of $1,125.00.

Note No. 5 The Company has agreed to reserve 100,000 shares of its capital stock for the purpose of granting options to certain personnel directly engaged in the exploration and development of the Pastaza Concession and that it will grant such options to such personnel at a price of not less than 50c per share, nor less than 20% under the market price prevailing at the time such options are granted, such options to expire no later than 30th June, 1967. No options have been granted to date.

These notes form an integral part of the Financial Statements.

AUDITOR'S REPORT

To the Shareholders of

Phoenix Canada Oil Company Limited:

I have examined the Balance Sheet of Phoenix Canada Oil Company Limited as at 31st December, 1964, and the Statements of Deferred Exploration, Development and Administration Expense and Surplus for the period ended on that date. My examination included a general review of the accounting procedures and such tests of the accounting records and other supporting evidence as I considered necessary in the circumstances. In my opinion the accompanying Balance Sheet with the related notes, and Statements of Deferred Exploration, Development and Administration Expense and Surplus present fairly the financial position of the Company as at 31st December, 1964, and the results of its operations for the period under review, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year with the exception that profit from the sale of investments which formerly was credited to Administration and General Expenses has been reversed and credited to Surplus.

Toronto, Ontario,
15th February, 1965.

CECIL B. BELL,
Chartered Accountant.

Phoenix Canada Oil Company Limited

EXPLORATION, DEVELOPMENT AND ADMINISTRATION EXPENSE FOR THE YEAR ENDED 31st DECEMBER, 1964

SCHEDULE "A"

EXPLORATION AND DEVELOPMENT — MINING CLAIMS			
Development and Prospecting			$ 1,412.20
EXPLORATION AND DEVELOPMENT — OIL AND GAS LEASES			
Geological Reports		$ 200.00	
General Office Expense		105.13	
Legal Fees		125.00	
Participation —			
Drilling Well on Cornwallis Island, including Rig move-out costs		23,836.76	
Telephone and Telegraph		216.91	
Travel and Auto Expense		520.86	25,004.66
ADMINISTRATION AND GENERAL			
General Office Expenses		$ 488.93	
Government Fees		521.00	
Legal and Audit		300.00	
Registrars' Fees		12.00	
Telephone and Telegraph		108.45	
Shareholders' Information		429.81	
Travel and Auto Expense		173.63	
Secretarial Services		699.21	
Executive and Administration Expense		81.28	
Rent		160.00	
Listing Fees and Expenses		367.95	
Interest Charges		160.33	
		$ 3,502.59	
Less: Share of Administration Expenses Received	$1,664.72		
Dividends Received	150.00		
Interest Earned	45.00	1,859.72	1,642.87
			$ 28,059.73
Add: Accumulated Expenses to 31st December, 1963		$165,679.19	
Transfer from this amount to Surplus, the profit on sale of investments in prior years which was credited against Administration and General Expense		4,266.08	169,945.27
Total Expense per Balance Sheet			$198,005.00

STATEMENT OF SURPLUS FOR THE YEAR ENDING 31st DECEMBER, 1964

SCHEDULE "B"

Balance, 31st December, 1962, being balance of Surplus arising from reorganization in 1960			$ 87,644.35
Add: Surplus arising from acquisition of certain assets in 1963 by the issue of 300,000 shares			121,508.00
			$209,152.35
Less: Cost of Properties abandoned and now written off;			
2,346,115 acres Arctic Islands Territorial Oil and Gas Permits		$ 76,959.00	
Interests in 679,475 acres (part of 3,036,988 acres) in the Arctic Islands and Alberta		13,424.00	90,383.00
			$118,769.35
Add: Profit on sale of investments in prior years which was credited to Administration and General Expenses now transferred to Surplus		$ 4,266.08	
Profit on sale of investments this year		26,081.06	30,347.14
Balance, 31st December, 1964			$149,116.49